

Office of the City Controller



Houston, Texas

Trends for Fiscal Year 2014

May 2013

Ronald C. Green
City Controller

Trends

Fiscal Year 2014

The information on the following pages was compiled by the Controller's Office with the goal of assisting City Council in putting the Administration's FY14 Proposed Budget into historical perspective. The trends presented here give Council members a broader picture and, hopefully, will help in the budget decision-making process.

Our estimates for General Fund revenues for Fiscal Year 2013 are expected to increase 6.8% from Fiscal Year 2012 revenues. However, Fiscal Year 2014 revenues are anticipated to increase approximately 3.1% (not including transfers and sale of assets). Fiscal Year 2014's projected revenues primarily reflect increases in Property Tax and Sales Tax.

Of concern, our FY14 projection for General Fund resources is \$15.6 million less than the Administration's FY14 Proposed Budget. To calculate Property Tax revenue, the Controller's Office used an estimated taxable value of \$159.8 billion, calculated by taking the estimated taxable values from Harris County, Fort Bend County, and Montgomery County Appraisal Districts in April 2013 and reducing that value 1% to recognize the continued stagnant growth of Residential taxable values, and a 97.5% collection rate. The Administration's projection used a taxable value of \$159.5 billion, and a 97.5% collection rate. For our Sales Tax projection, we assumed growth of 4.3%, which is Dr. Gilmer's March projection of 5.3% growth, less 1% margin of error. The Administration is using 5.76%.

We need to point out that the General Fund Beginning Fund Balance shown in the Proposed Budget is \$4.5 million higher than our draft FY13 April MFOR projection. Combined with the fact that the 2014 Proposed Budget for the General Fund reduces fund balance \$27.6 million, our projected Ending Fund Balance for FY14 is \$116.8 million, or 6.4% of the expenditures other than debt service, which is below the preferred amount of 7.5%.

In the Enterprise Funds, Aviation revenues are increasing slightly due to higher Parking and Concession revenues. Convention & Entertainment revenues are increasing from higher HOT tax revenues. The Combined Utility System's (CUS) revenues are increasing as well, primarily due to the annual water and sewer rate increase.

Summary of Graphs

The numbers on each page are from the following sources:

1. **FY12 and prior years are actual results as reported in previous Comprehensive Annual Financial Reports (CAFR).**
2. **FY13 numbers are the Controller's Office April Monthly Financial Operations Report (MFOR) draft estimates.**
3. **The FY14 General Fund revenues are the most current projections of the Controller's Office.**
4. **Unless otherwise noted, all other FY14 numbers are from the Administration's FY14 Proposed Budget.**

General Fund Revenues

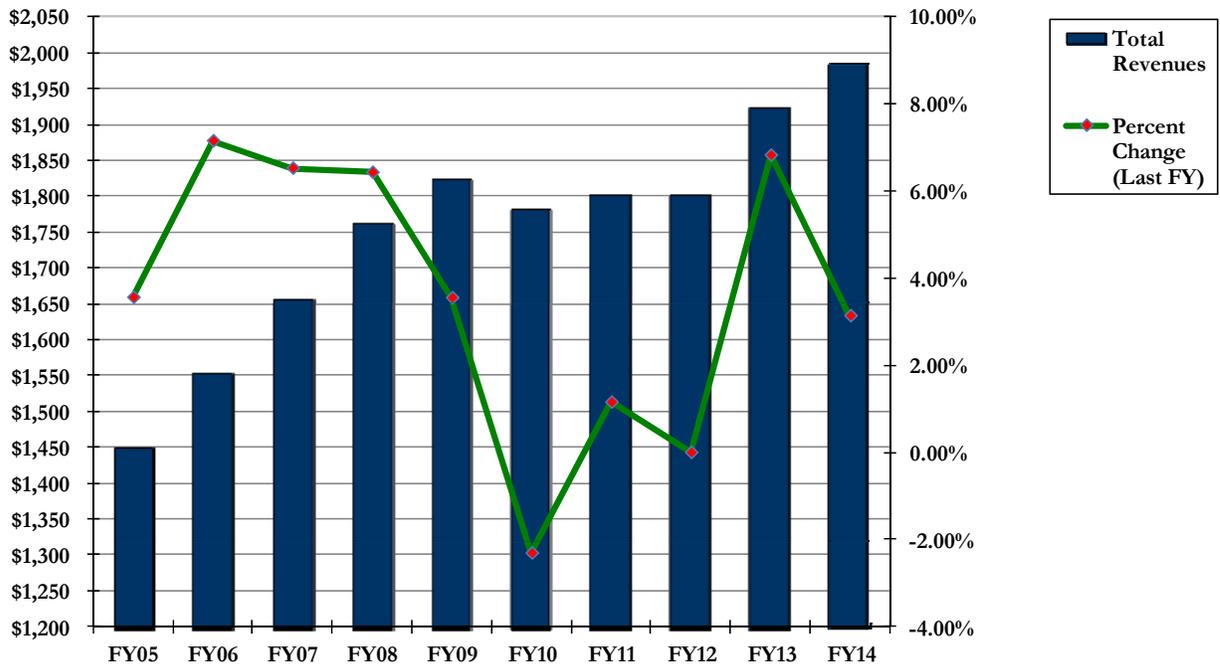
(amounts expressed in thousands)

Revenues	FY09	FY10	FY11	FY12	FY13	FY14	% Change [a]	Admin.'s	Difference [a]
	Actual	Actual	Actual	Actual	Controller's April Proj.	Controller's Projection		Proposed Budget	
Property Tax	\$ 890,088	\$ 892,865	\$ 859,413	\$ 866,141	\$ 902,940	\$ 942,735	4.41% [b]	\$ 940,611	2,124
Industrial Assessments	19,133	15,817	14,458	37	28,000	14,000	-50.00% [c]	15,000	(1,000)
Sales Tax	507,103	468,965	492,824	546,543	594,700	620,272	4.30% [d]	629,602	(9,330)
Other Taxes	10,813	10,577	10,450	9,717	9,685	9,994	3.19%	9,994	0
Electric Franchise	99,612	97,248	98,108	99,765	103,697	100,526	-3.06%	100,526	0
Telephone Franchise	48,229	48,263	46,722	45,466	44,746	44,623	-0.27%	44,623	0
Gas Franchise	21,258	21,729	21,890	22,009	19,194	16,492	-14.08% [e]	16,492	0
Other Franchise	21,223	23,628	23,844	25,520	25,960	26,812	3.28%	26,812	0
Licenses & Permits	17,511	18,636	18,714	24,586	31,955	32,275	1.00%	32,820	(545)
Intergovernmental	33,027	32,148	58,895	12,124	12,446	21,064	69.24% [f]	21,065	(1)
Charges for Services	35,743	34,156	38,166	45,370	45,571	46,027	1.00%	47,759	(1,732)
Direct Interfund Services	47,890	46,906	46,034	41,469	44,646	46,455	4.05%	46,455	0
Indirect Interfund Services	13,190	16,012	16,328	18,255	16,850	20,558	22.01%	20,558	0
Muni Courts Fines	37,692	38,096	36,319	34,416	31,375	31,375	0.00%	33,799	(2,424)
Other Fines	2,692	2,029	2,903	2,774	4,279	4,279	0.00%	4,648	(369)
Interest	8,826	6,858	5,788	4,433	3,000	2,000	-33.33% [g]	3,000	(1,000)
Misc/Other	10,276	8,215	11,872	4,070	6,725	6,725	0.00%	8,058	(1,333)
Total	\$ 1,824,306	\$ 1,782,148	\$ 1,802,728	\$ 1,802,695	\$ 1,925,769	\$ 1,986,212	3.14%	\$ 2,001,822	\$ (15,610)
Transfers from Other Funds	35,810	38,658	23,561	53,144	27,922	27,770	-0.54%	27,770	0
Sale of Capital Assets	4,798	6,548	13,766	1,504	4,757	2,500	-47.45% [h]	2,500	0
Proceeds from Promissory Note	-	-	-	-	10,955	-	-	-	0
Disaster Recovery Fund Transfer	-	-	-	-	-	-	-	-	0
Pension Bond Proceeds	20,000	20,000	-	-	-	-	-	-	0
Total Revenues and Transfers	\$ 1,884,914	\$ 1,847,354	\$ 1,840,055	\$ 1,857,343	\$ 1,969,403	\$ 2,016,482	2.39%	\$ 2,032,092	\$ (15,610)

- [a] The “Percentage Change” column compares our FY14 projection to our FY13 estimate, while the “Difference” column compares our FY14 projection to the proposed budget.
- [b] Property Tax revenue is net of refunds and Tax Increment Reinvestment Zone (TIRZ) payments. The Controller’s FY14 projection for Property Tax revenues is based on the taxable values provided by Harris County on April 30, 2013. This amount was reduced an additional 1% to reflect the continued sluggish growth in Residential taxable values. The projection assumes an estimated \$26 million in delinquent collections and an estimated \$78 million in TIRZ payments.
- [c] Industrial Assessments decrease of 50% is due to FY13 containing two years worth of revenues (FY12 and FY13).
- [d] Sales Tax revenue uses our FY13 Sales Tax revenue estimate plus Dr. Robert Gilmer’s March 2013 estimated growth rate of 5.3% for FY14. This is then reduced by a margin of error of 1%.
- [e] Gas Franchise decrease of 14% is due to continued lower Natural Gas prices.
- [f] Intergovernmental increase of 69% is from \$10.3 million of Medicaid 1115 Waiver revenues, which are offset by additional expenditures for the same amount in the Health Department budget.
- [g] Interest decrease of 33% is due to continued lower expected interest earnings within the Investment Pool.
- [h] The Controller’s office anticipates that all of the Administration’s budgeted amount of these capital assets will be received.

General Fund Revenues

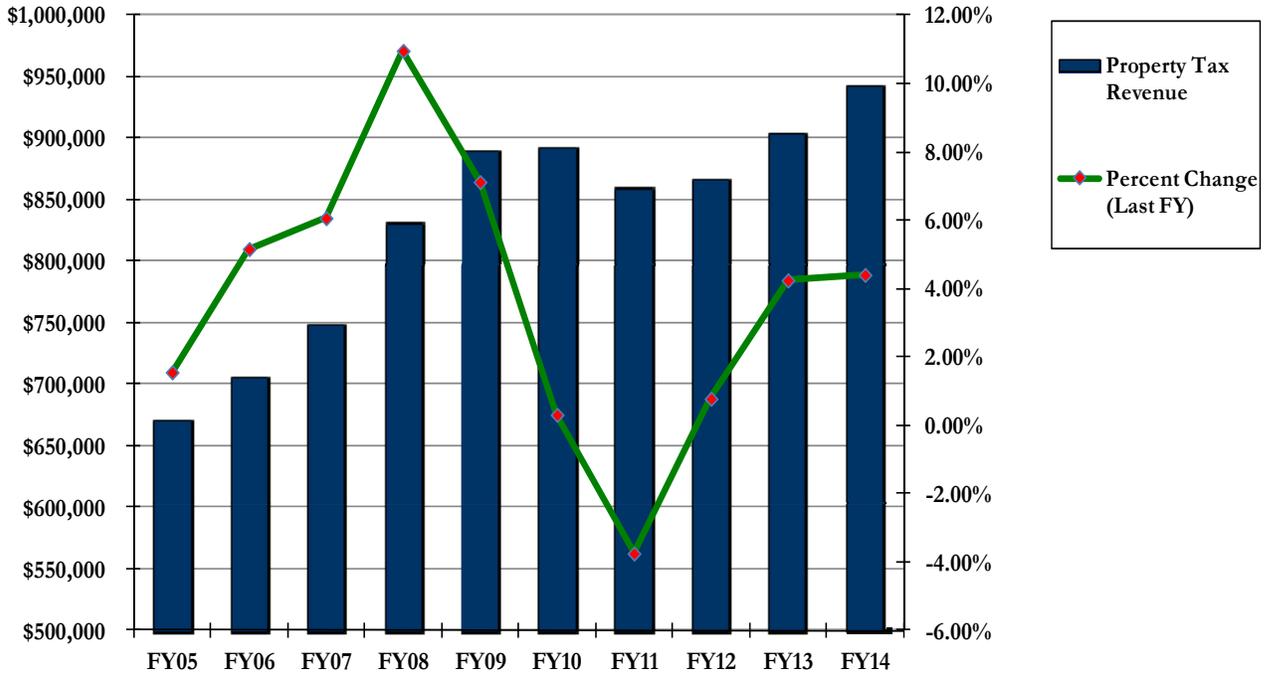
(amounts expressed in millions)



FY14 General Fund revenue is projected to increase by \$60.4 million, or 3.1% over our current FY13 estimate. The projected increase consists mostly of increased property tax of \$39.8 million, sales tax of \$25.6 million and intergovernmental revenue of \$8.6 million. Industrial Assessments are expected to decrease by \$14 million, due to FY13 containing two years of revenues (FY12 & FY13).

Property Tax Revenue

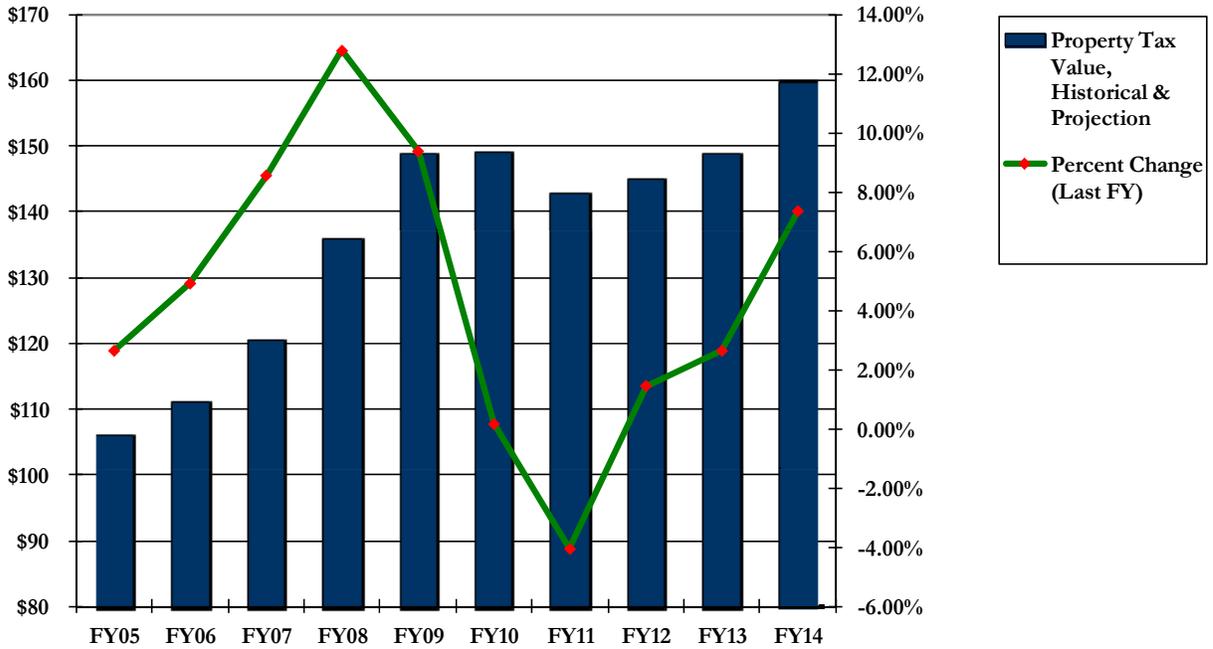
(amounts expressed in thousands)



Property Tax revenue is projected to be higher than the FY13 estimate by 4.4%. TIRZ payments are increasing to \$78 million, and delinquent tax collections of \$26 million. Controller's Property Tax revenue projection is based on a tax rate of 63.875 cents per \$100 valuation and a collection rate of 97.5%.

Taxable Values Historical & Forecast

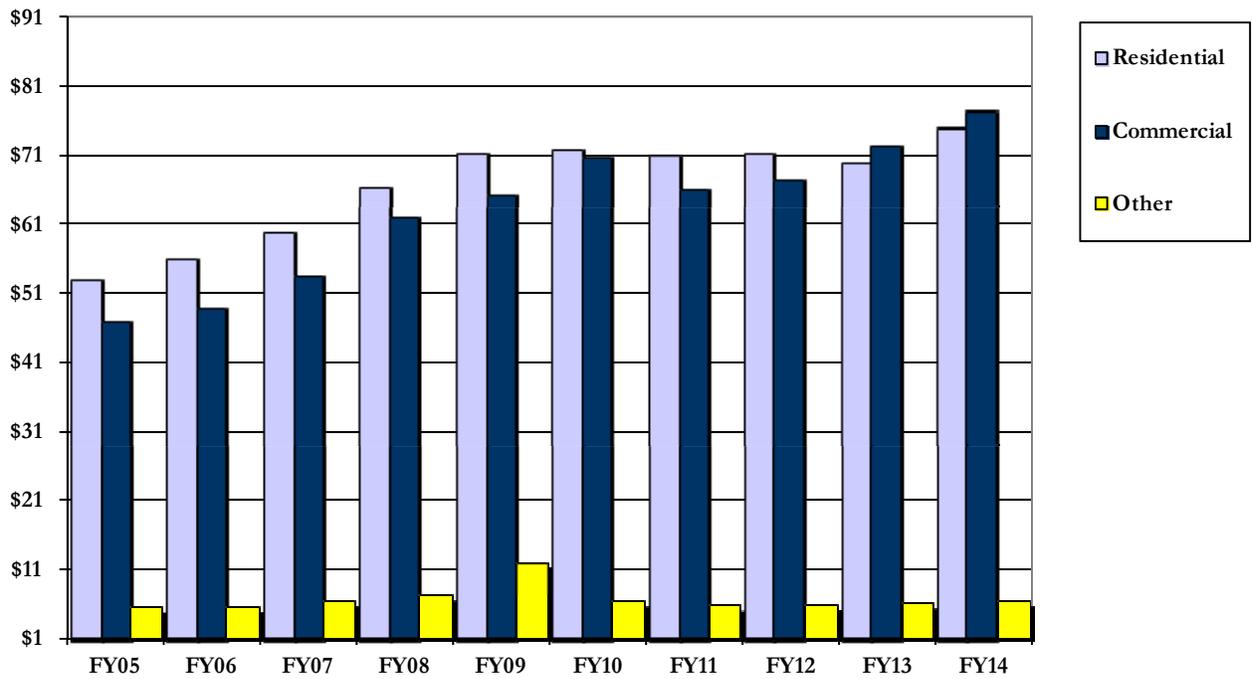
(amounts expressed in billions)



The Harris County, Fort Bend County, and Montgomery County Appraisal Districts (the Districts) provide expected taxable values. The actual taxable values for FY13 are above the preliminary value estimates provided at this time last year. However, based on the Districts' projection for FY14, an increase in valuation of about 4.63% is anticipated. These values are based on the Districts' preliminary projected values, dated April 30, 2013, and reduced 1% to reflect continued stagnant residential taxable values.

Taxable Values By Property Type Historical & Forecast

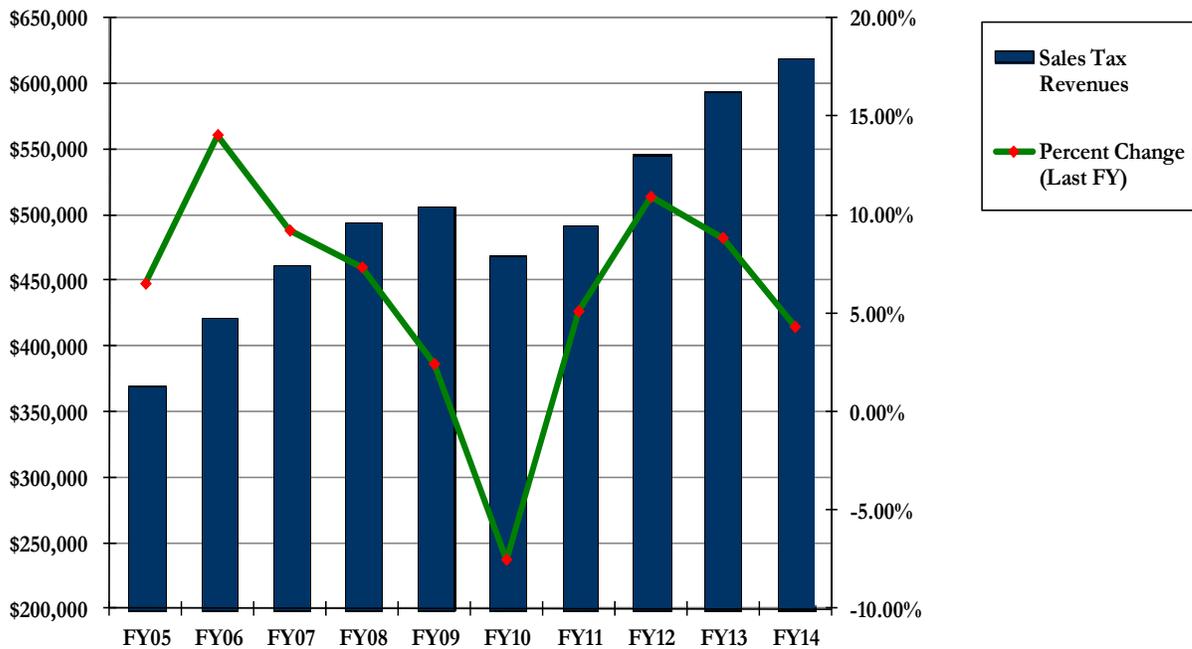
(amounts expressed in billions)



Residential and commercial properties in the City of Houston make up 96% of the taxable values.

Sales Taxes Revenue

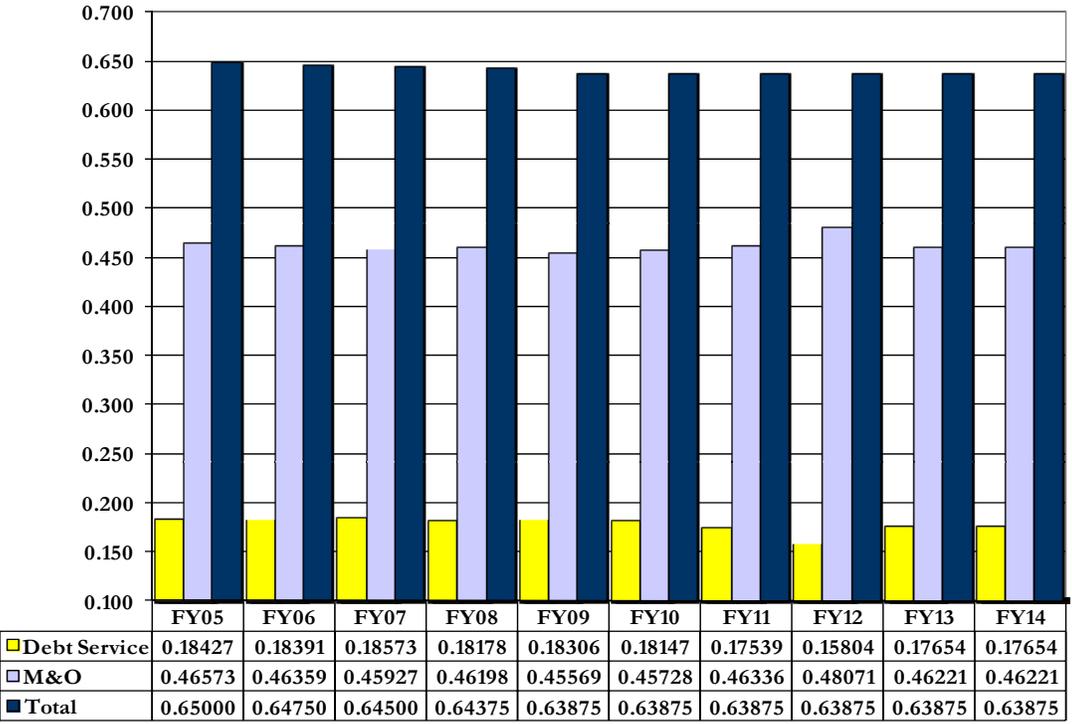
(amounts expressed in thousands)



FY14 Sales tax revenue is projected to be 4.3% higher than FY13 Sales Tax receipts. This increase is based on the 5.3% estimated growth of Dr. Robert Gilmer's March report less an error rate reduction of 1%. This is the first year Dr. Gilmer has provided the estimate.

Property Tax Rate

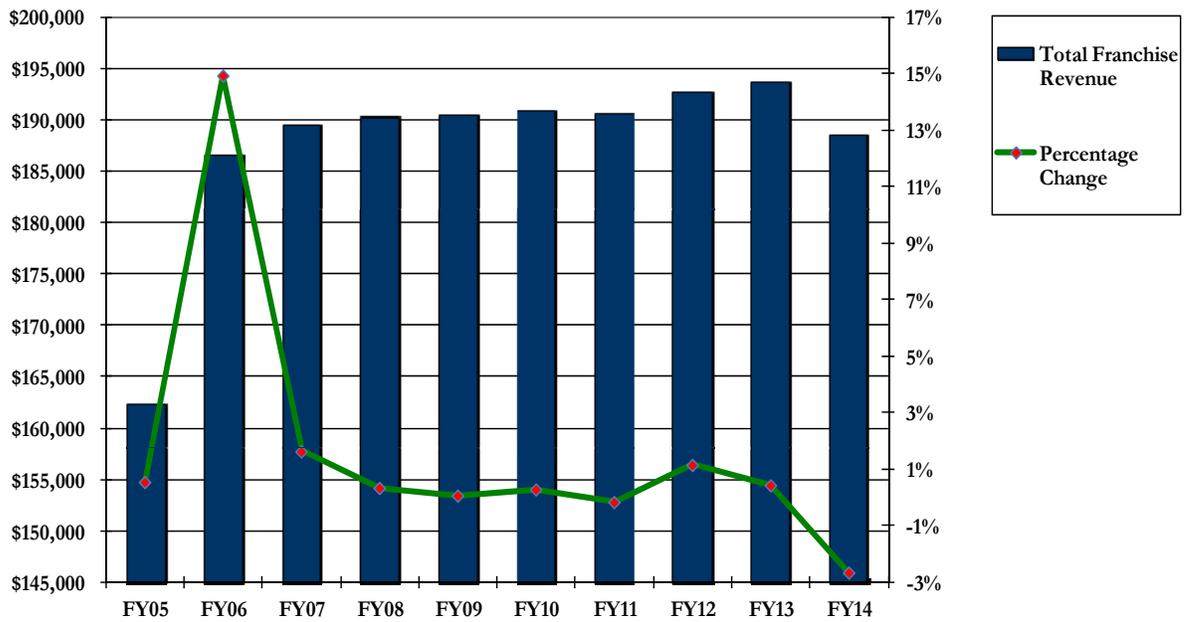
(Tax Rate per \$100 Valuation)



The FY14 number is a projection. The final rate will be established by a vote of Council in the first or second quarter of FY14 when the Certified Roll is available.

Total Franchise Revenues

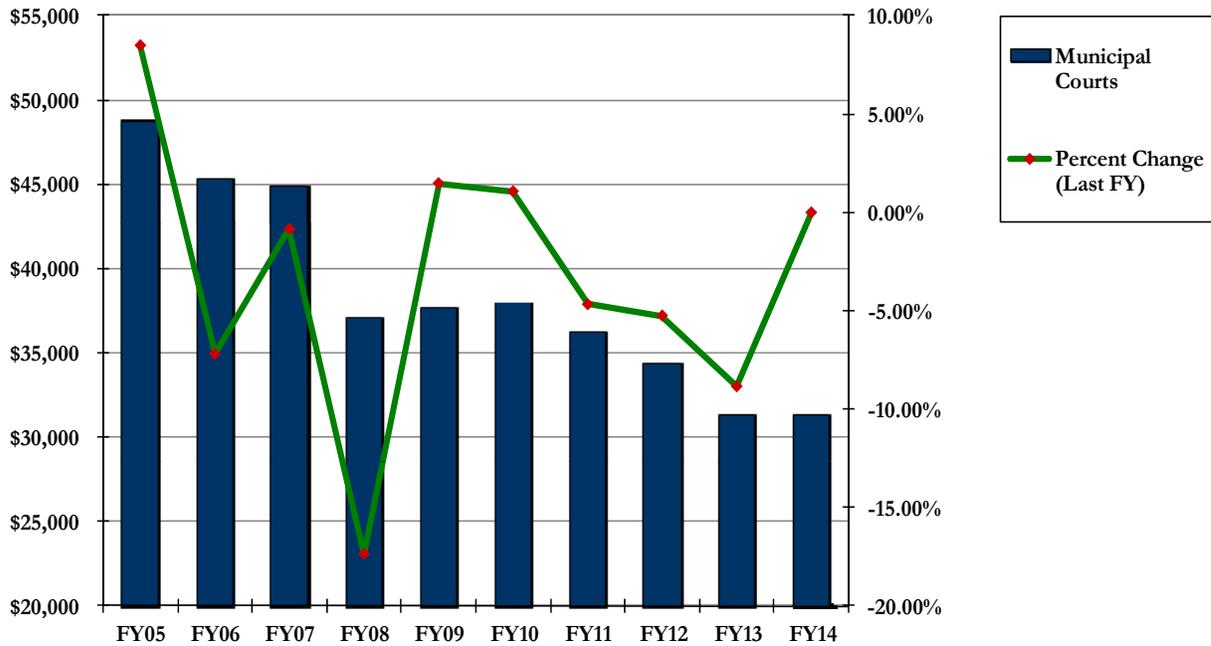
(amounts expressed in thousands)



Franchise revenues are projected to decrease 2.7% for FY14. Although decreases are expected in Electric Franchise, Telephone Franchise, and Gas Franchise, a small increase in Other Franchise is expected.

Municipal Courts Revenues

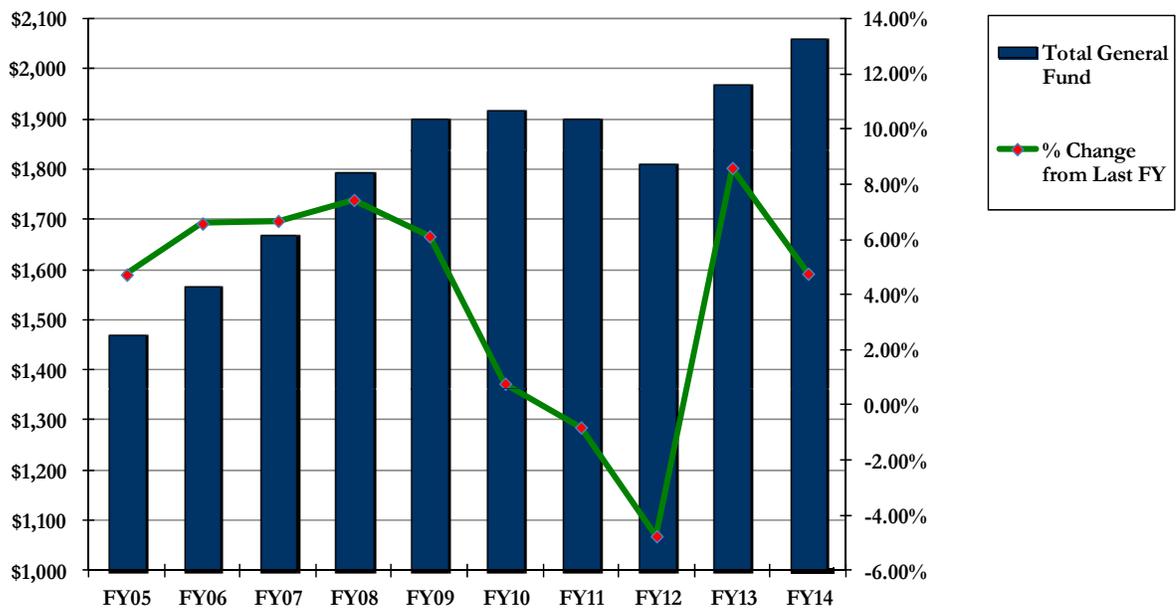
(amounts expressed in thousands)



Municipal Courts Fines and Forfeits are expected to remain flat in FY14. The effectiveness of the new collection processes have not yet been determined.

General Fund Expenditures Budget

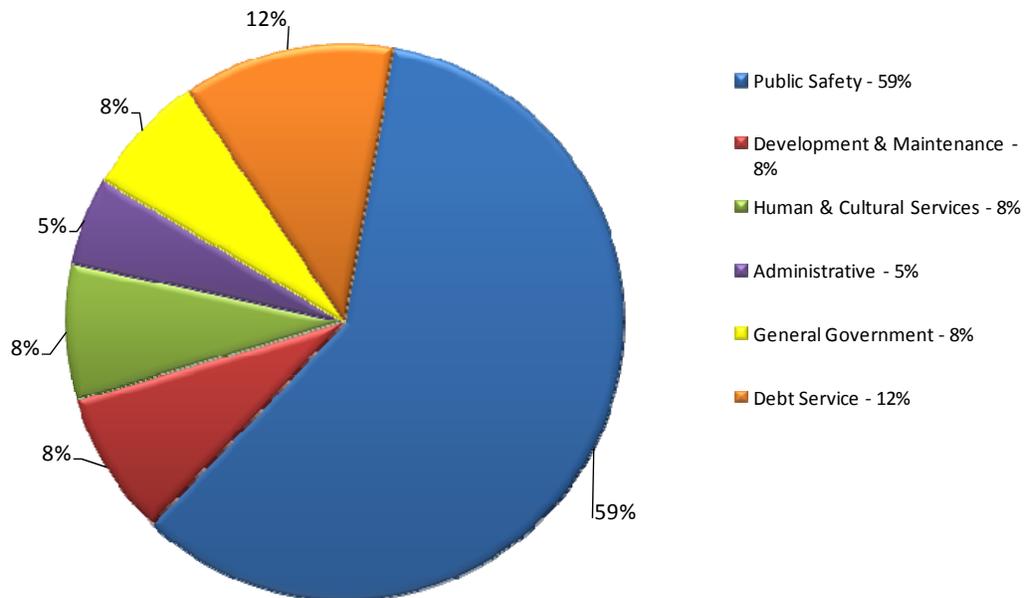
(amounts expressed in millions)



The General Fund expenditure budget is up by 4.8%, an increase of \$94 million from our FY13 estimated expenditures. The gap between Controller's projected revenues and budgeted expenditures will require using \$43 million from the Fund Balance to cover the operating deficit for FY14.

General Fund

Expenditures Percent by Function for 2014



Public Safety – Fire, Houston Emergency Center, Municipal Courts, Police

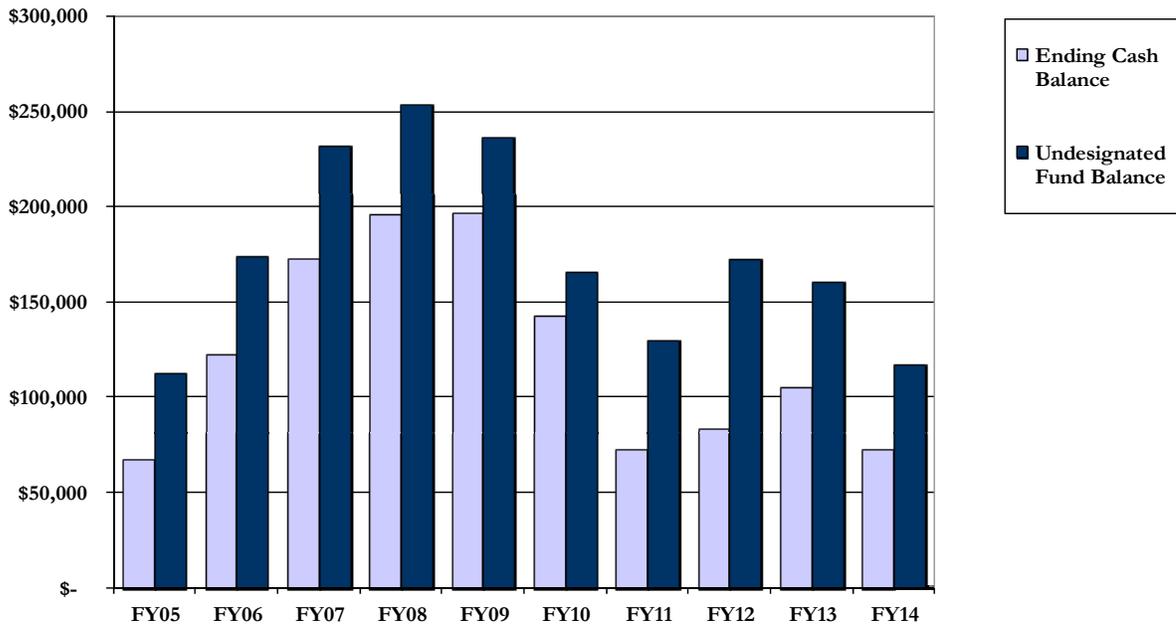
Development & Maintenance – General Services, Planning, Public Works, Solid Waste

Human & Cultural – Neighborhoods, Health, Housing, Library, Parks

Administrative – Administration & Regulatory Affairs, Controllers, Council, City Secretary, Finance, IT, HR, Legal, Mayor, Office of Business Opportunity

Cash vs. Fund Balance General Fund

(amounts expressed in thousands)

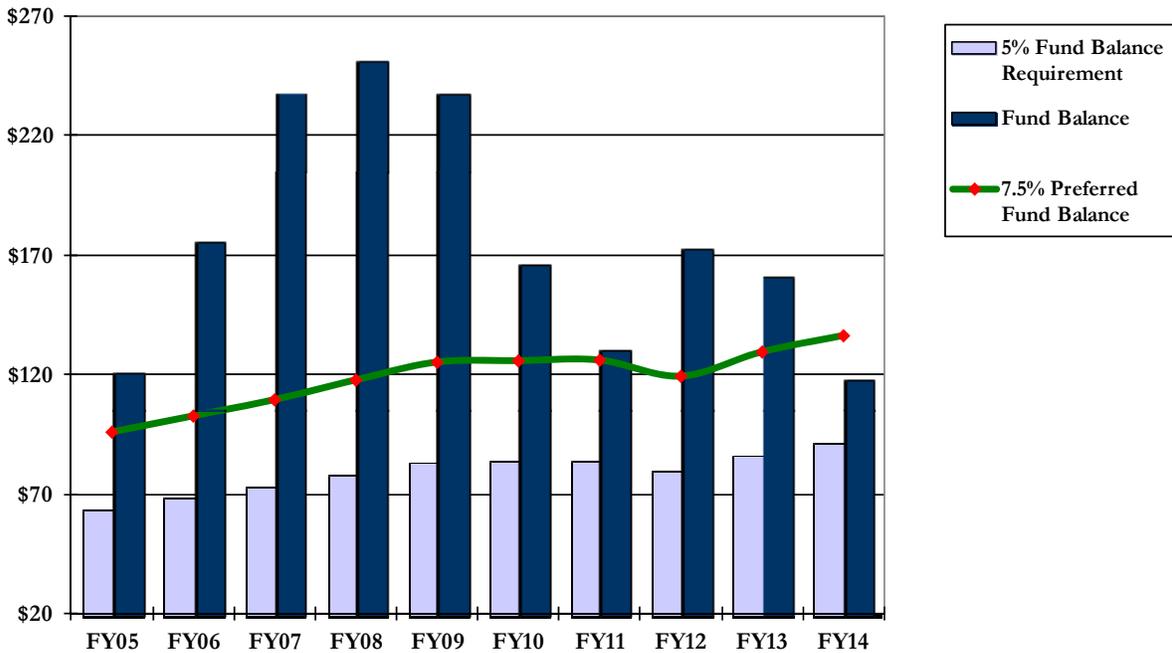


The Undesignated Fund Balance consists of both cash and non-cash items and includes receivables for Sales Tax and Franchise Fees. The Undesignated Fund Balance is expected to decrease by \$12 million in FY13 and decrease by \$43 million in FY14.

City Ordinance 5% Fund Balance Requirement

General Fund

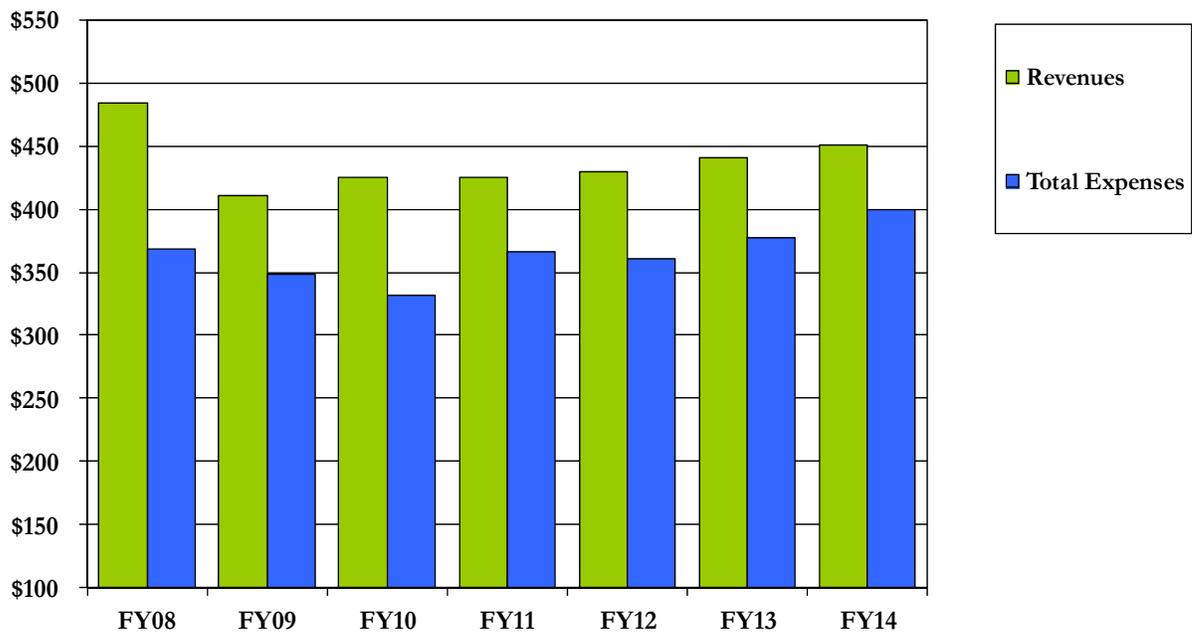
(amounts shown in Millions)



City ordinance requires an Undesignated Reserve of 5% of the Adopted Budget less Debt Service. An Undesignated Reserve of 7.5% is preferred. For FY14, we are projecting an ending fund balance \$25.9 million above the 5% required, but also a \$19.5 million deficit under the 7.5% Preferred Fund Balance.

Aviation Revenues & Expenses

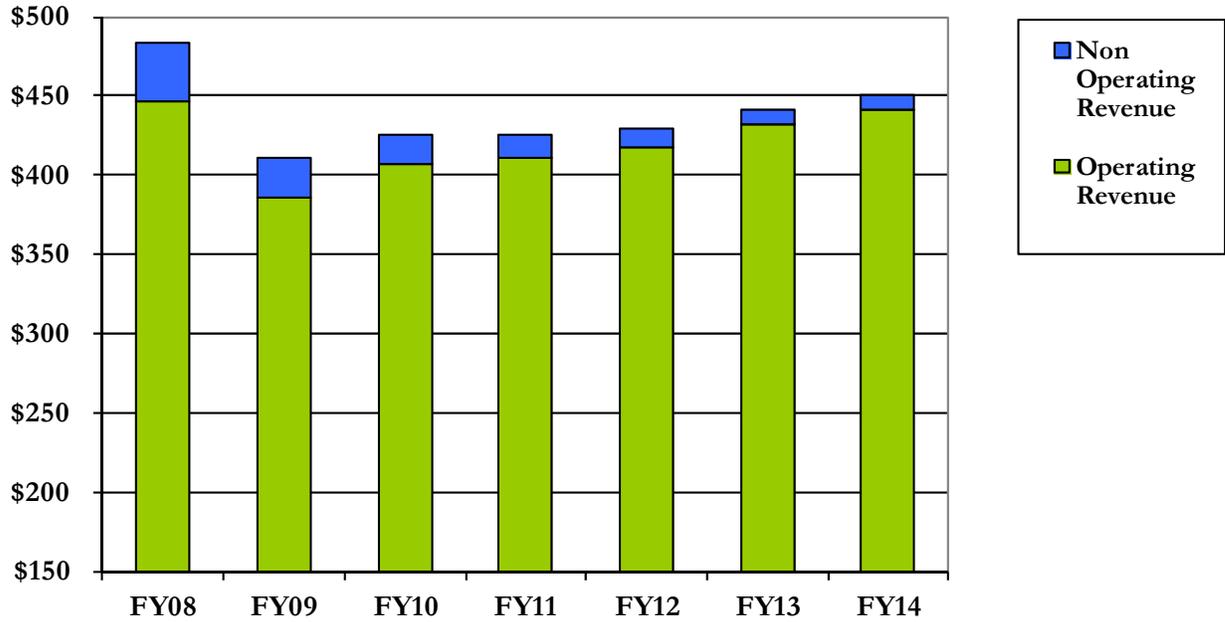
(amounts expressed in millions)



Aviation is projecting revenues to increase slightly due to additional operating revenues. Projected increases in expenses are based on anticipated increased spending for Personnel costs (Pay Increases, Health Benefits and Pension).

Aviation Revenues

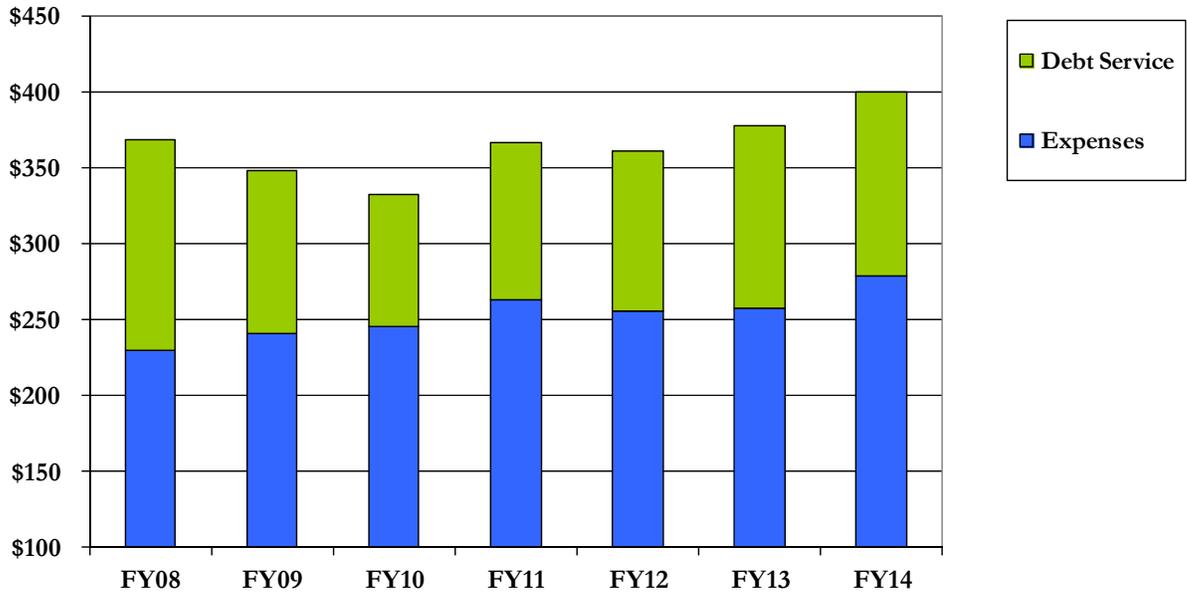
(amounts expressed in millions)



FY14 revenues are expected to increase 2.08%, or \$9.2 million from the FY13 estimate, primarily related to a budgeted increase in Terminal Space Rentals, Parking and Retail Concessions.

Aviation Expenses

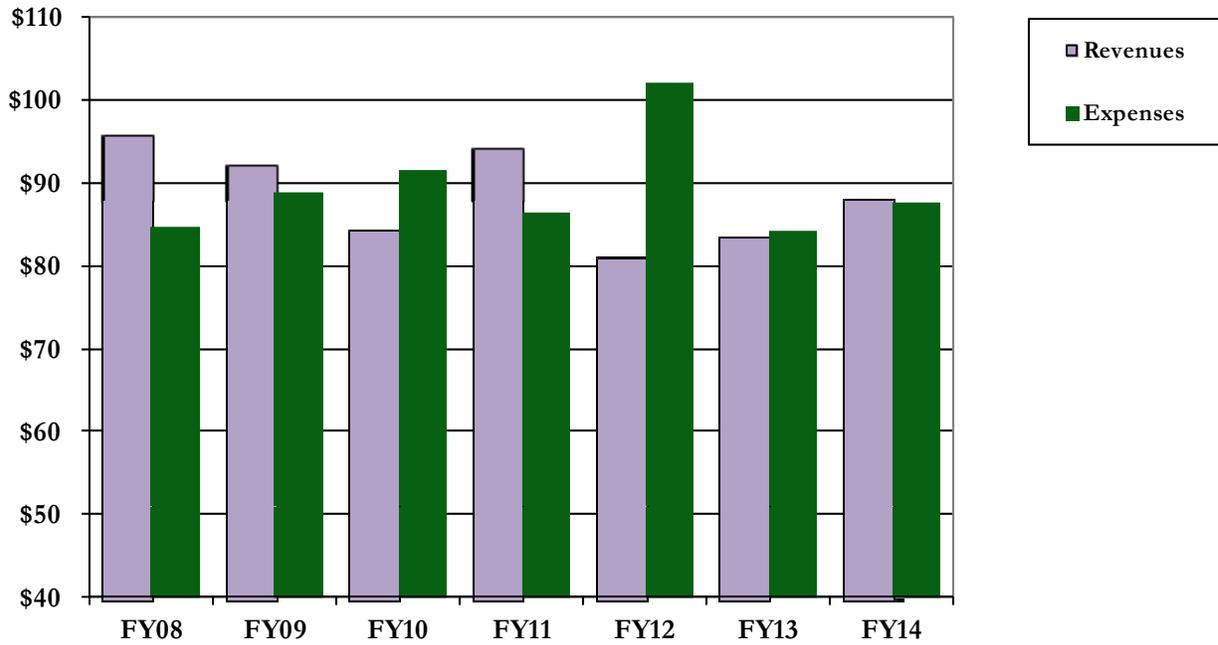
(amounts expressed in millions)



Aviation expects an FY14 expense increase of approximately 5.8%, or \$22 million over the FY13 estimate.

Convention & Entertainment Revenues & Expenses

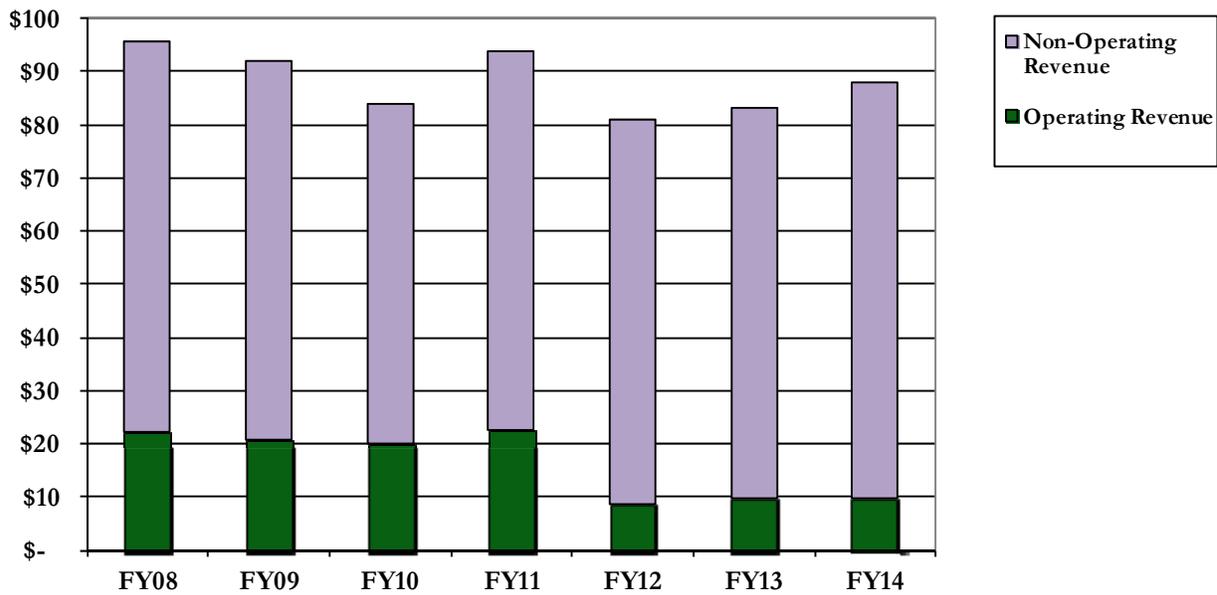
(amounts expressed in millions)



Convention & Entertainment projects the expenses to be basically level with the revenues in FY14.

Convention & Entertainment Revenues

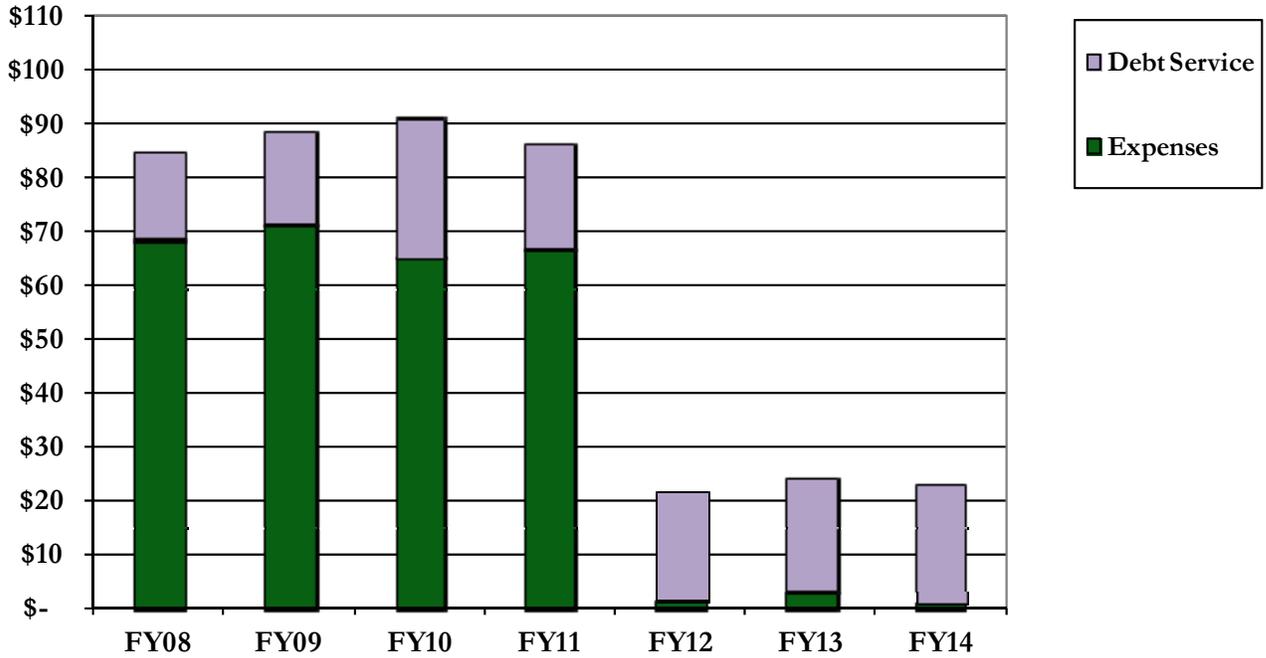
(amounts expressed in millions)



Convention & Entertainment total revenues are primarily generated from HOT taxes reported as Non-Operating revenues, followed by pledged parking fees reported as Operating revenues. HOT tax revenues are projected to increase 6.74% in FY14 to \$76 million when compared to estimated FY12 revenues of \$71.2 million.

Convention & Entertainment Expenses

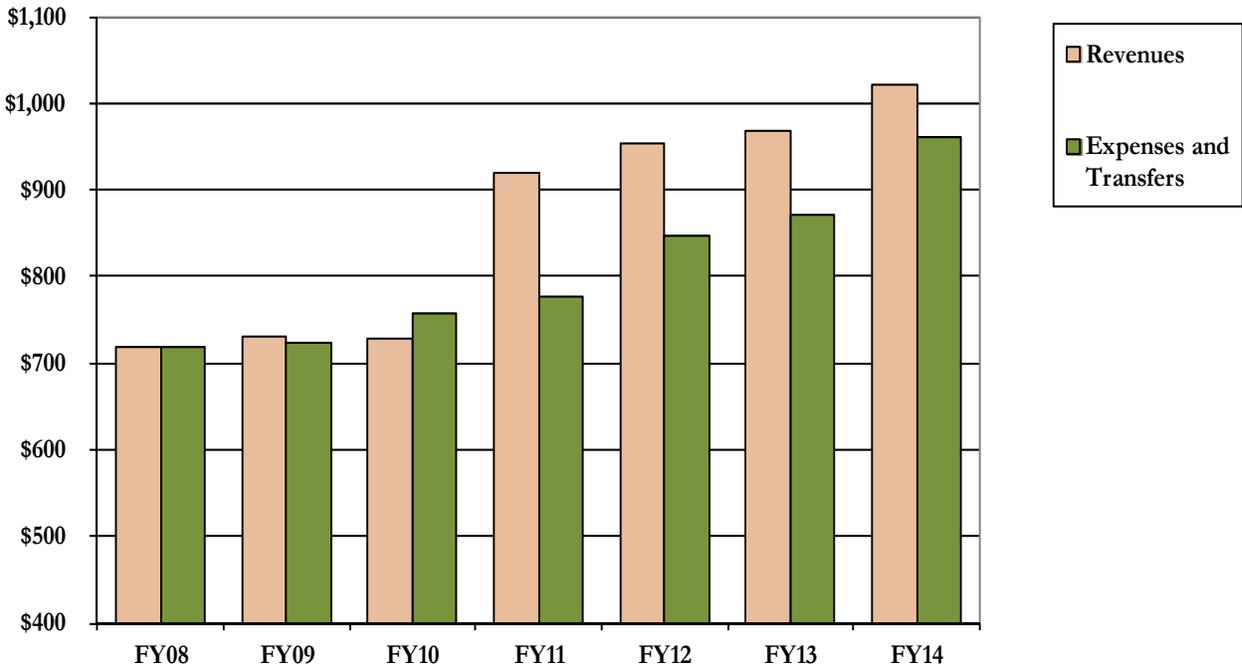
(amounts expressed in millions)



Convention & Entertainment is projecting an overall decrease of \$1.2 million from FY13 levels, essentially flat.

Combined Utility System Revenues and Expenses

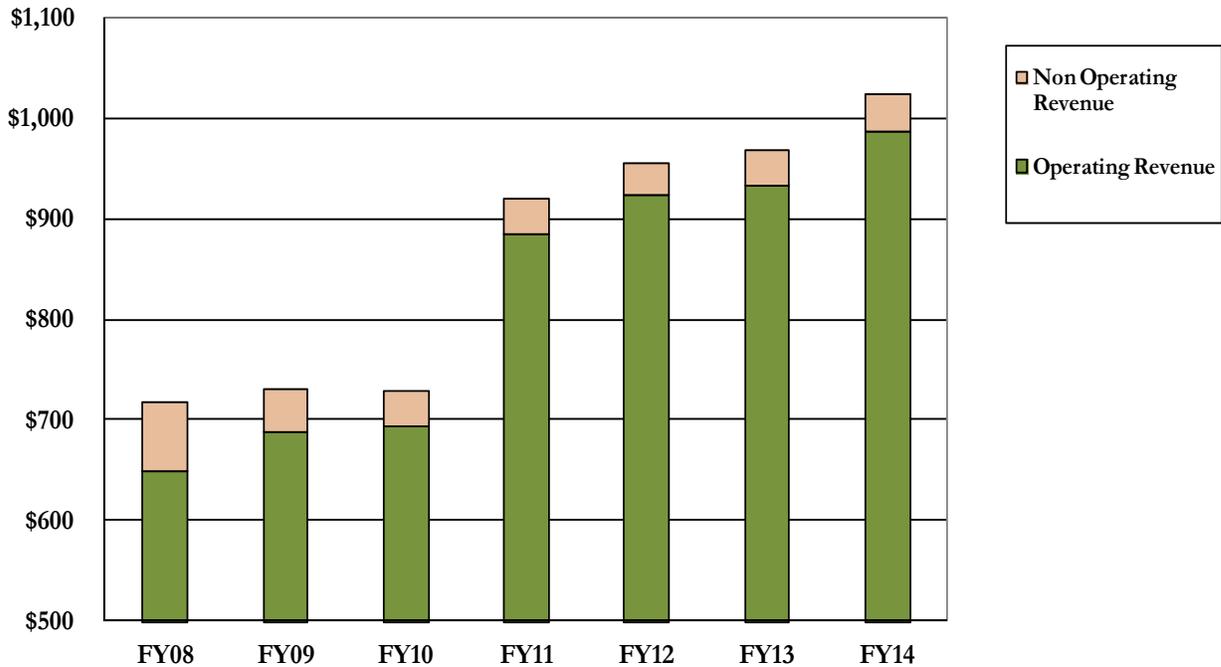
(amounts expressed in millions)



City ordinance directs that remaining funds, after all expenses and other financial obligations are met (the System's net revenues), are transferred to the CUS General Purpose Fund. The funds within the CUS General Purpose Fund are available to pay for any lawful System purpose and for drainage purposes, subject to certain restrictions.

Combined Utility System Revenue

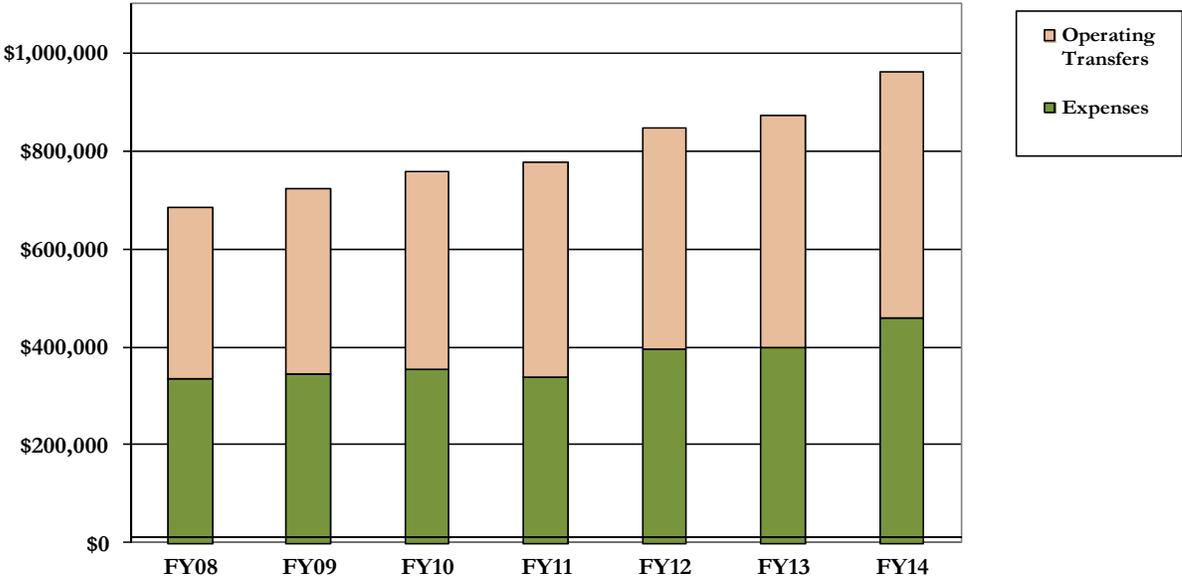
(amounts expressed in millions)



Operating Revenues for the Combined Utility System are projected to increase year-over-year due in part to an annual rate adjustment equal to the previous calendar year's Consumer Price Index for the area including Houston, Galveston and Brazoria Counties. The rate adjustments for Fiscal Years 2008, 2009, 2010, 2011, 2012, and 2013 are 2.8%, 5.1%, 0.3%, 1.9%, 3.3%, and 3.6% respectively.

Combined Utility System Operating Expenses by Category

(amounts expressed in millions)



The CUS Operating and Maintenance expenses reflect changes to energy expense components, employment expenses, additional resources to accommodate new customers or additional regulatory compliance. Operating Transfers include the System's debt service payment obligations as well as the drainage expense and debt service funding obligations. These numbers are the Administration's projections, not numbers generated by the Controller's Office.